

**APPENDIX A -- FINAL RULES**

Part 54 of the Code of Federal Regulations is amended as follows:

**PART 54 -- UNIVERSAL SERVICE**

1. The authority citation continues to read as follows:

Authority: 47 U.S.C. § 1, 4(i), 201, 205, 214, and 254 unless otherwise noted.

**Subpart F -- Universal Service Support for Schools and Libraries**

2. Section 54.504 is amended by revising subparagraph (b)(2)(iii) and adding paragraphs (f) and (g) as follows:

**54.504 Requests for services.**

(a) \* \* \*

(b) \* \* \*

(2) \* \* \*

(iii) The services will not be sold, resold, or transferred in consideration for money or any other thing of value, and will not be transferred, with or without consideration for money or any other thing of value, except as permitted by the Commission's rules;

\* \* \*

(e) \* \* \*

(f) *Service Substitution.*

(1) The Administrator shall grant a request by an applicant to substitute a service or product for one identified on its FCC Form 471 where:

(A) the service or product has the same functionality;

(B) the substitution does not violate any contract provisions or state or local procurement laws;

(C) the substitution does not result in an increase in the percentage of ineligible services or functions; and

(D) the applicant certifies that the requested change is within the scope of the controlling FCC Form 470, including any associated Requests for Proposal, for the original services.

(2) In the event that a service substitution results in a change in the pre-discount price for the supported service, support shall be based on the lower of either the pre-discount price of the service for which support was originally requested or the pre-discount price of the new, substituted service.

(3) For purposes of this rule, the broad categories of eligible services (telecommunications service, Internet access, and internal connections) are not deemed to have the same functionality with one another.

(g) *Mixed eligibility services.* A request for discounts for a product or service that includes both eligible and ineligible components must allocate the cost of the contract to eligible and ineligible components.

(1) *Ineligible components.* If a product or service contains ineligible components, costs must be allocated to the extent that a clear delineation can be made between the eligible and ineligible components. The delineation must have a tangible basis, and the price for the eligible portion

must be the most cost-effective means of receiving the eligible service.

(2) *Ancillary ineligible components.* If a product or service contains ineligible components that are ancillary to the eligible components, and the product or service is the most cost-effective means of receiving the eligible component functionality, without regard to the value of the ineligible component, costs need not be allocated between the eligible and ineligible components.

Discounts shall be provided on the full cost of the product or service. An ineligible component is "ancillary" if (1) a price for the ineligible component cannot be determined separately and independently from the price of the eligible components, and (2) the specific package remains the most cost-effective means of receiving the eligible services, without regard to the value of the ineligible functionality.

(3) The Administrator shall utilize the cost allocation requirements of this subparagraph in evaluating mixed eligibility requests under section 54.504(d)(1).

3. Section 54.506 is amended to place the existing text in subparagraph (a), and to add subparagraphs (b) and (c) as follows:

#### **54.506 Internal Connections**

(a) A service is eligible for support as a component of an institution's internal connections if such service is necessary to transport information within one or more instructional buildings of a single school campus or within one or more non-administrative buildings that comprise a single library branch. Discounts are not available for internal connections in non-instructional buildings of a school or school district, or in administrative buildings of a library, to the extent that a library system has separate administrative buildings, unless those internal connections are essential for the effective transport of information to an instructional building of a school or to a non-administrative building of a library. Internal connections do not include connections that extend beyond a single school campus or single library branch. There is a rebuttable presumption that a connection does not constitute an internal connection if it crosses a public right-of-way.

(b) *Basic maintenance services.* Basic maintenance services shall be eligible as an internal connections service if, but for the maintenance at issue, the internal connection would not function and serve its intended purpose with the degree of reliability ordinarily provided in the marketplace to entities receiving such services. Basic maintenance services do not include services that maintain equipment that is not supported or that enhance the utility of equipment beyond the transport of information, or diagnostic services in excess of those necessary to maintain the equipment's ability to transport information.

(c) *Frequency of Discounts for Internal Connections Services.* Each eligible school or library shall be eligible for support for internal connections services, except basic maintenance services, no more than twice every five funding years. For the purpose of determining eligibility, the five-year period begins in any funding year, starting with Funding Year 2005, in which the school or library receives discounted internal connections services other than basic maintenance services. If a school or library receives internal connections services other than basic maintenance services that are shared with other schools or libraries (for example, as part of a consortium), the shared services will be attributed the school or library in determining whether it is eligible for support.

4. Section 54.507 is amended by adding paragraphs (a)(1) and (a)(2) to read as follows:

**§ 54.507 Cap.**

(a) \*\*\*\*\*

(1) *Amount of Unused Funds.* The Administrator shall report to the Commission, on a quarterly basis, funding that is unused from prior years of the schools and libraries support mechanism.

(2) *Application of Unused Funds.* On an annual basis, in the second quarter of each calendar year, all funds that are collected and that are unused from prior years shall be available for use in the next full funding year of the schools and libraries mechanism in accordance with the public interest and notwithstanding the annual cap, as described in paragraph (a) of this section.

5. Section 54.509(b) is revised to read as follows:

**§ 54.509 Adjustments to the discount matrix.**

(b) *Reduction in percentage discounts.* At all times other than within a filing period described in § 54.507(c), if the estimates schools and libraries make of their future funding needs lead the Administrator to predict that total funding request for a funding year will exceed the available funding, the Administrator shall calculate the percentage reduction to all schools and libraries, except those in the two most disadvantaged categories, necessary to permit all requests in the next funding year to be fully funded.

6. Section 54.513 is amended by revising the title of the section and adding paragraph (c) as follows:

**54.513 Resale and transfer of services.**

(a) \* \* \*

(b) \* \* \*

(c) Eligible services and equipment components of eligible services purchased at a discount under this subpart shall not be transferred, with or without consideration of money or any other thing of value, for a period of three years after purchase, except that eligible services and equipment components of eligible services may be transferred to another eligible school or library in the event that the particular location where the service originally was received is permanently or temporarily closed. If an eligible service or equipment component of a service is transferred due to the permanent or temporary closure of a school or library, the transferor must notify the Administrator of the transfer, and both the transferor and recipient must maintain detailed records documenting the transfer and the reason for the transfer for a period of five years

7. Section 54.516 is amended by adding a sentence to paragraph (b) as follows:

**54.516            Auditing.**

(a) \* \* \* Schools and libraries shall be required to maintain asset and inventory records of equipment purchased as components of supported internal connections services sufficient to verify the actual location of such equipment for a period of five years after purchase.

8. Section 54.522 is added as follows:

**54.522            Eligible services list.**

The Administrator shall submit by June 30 of each year a draft list of services eligible for support, based on the Commission's rules, in the following funding year. The Commission will issue a Public Notice seeking comment on the Administrator's proposed eligible services list. At least 60 days prior to the opening of the window for the following funding year, the Commission shall release a Public Notice attaching the final eligible services list for the upcoming funding year.

9. Section 54.523 is added as follows:

**54.523            Payment for the non-discount portion of supported services.**

An eligible school, library, or consortium must pay the non-discount portion of services or products purchased with universal service discounts. An eligible school, library, or consortium may not receive rebates for services or products purchased with universal service discounts. For the purpose of this rule, the provision, by the provider of a supported service, of free services or products unrelated to the supported service or product constitutes a rebate of the non-discount portion of the supported services.

**APPENDIX B**  
**DISCOUNT MATRIX**  
**47 C.F.R. § 54.505(c)**

Percentage of Students Eligible for School Lunch Program	Urban Discount Level	Rural Discount Level
<1	20%	25%
1-19	40%	50%
20-34	50%	60%
35-49	60%	70%
50-74	80%	80%
75-100	90%	90%

## APPENDIX C

## Examples of Permissible Funding Under Twice-Every-Five-Years Rule for Internal Connections

	Example 1	Example 2	Example 3	Example 4	Example 5	Example 6
2005	<b>Funding Received</b>	<b>Funding Received</b>	<b>Funding Received</b>	<b>Funding Received</b>	Eligible, but no Funding Received	<b>Funding Received</b>
2006	<b>Funding Received</b>	Eligible, but no Funding Received	Eligible, but no Funding Received	Eligible, but no Funding Received	Eligible, but no Funding Received	Eligible, but no Funding Received
2007	Not Eligible for Funding	Eligible, but no Funding Received	<b>Funding Received</b>	Eligible, but no Funding Received	Eligible, but no Funding Received	Eligible, but no Funding Received
2008	Not Eligible for Funding	<b>Funding Received</b>	Not Eligible for Funding	<b>Funding Received</b>	Eligible, but no Funding Received	Eligible, but no Funding Received
2009	Not Eligible for Funding	Not Eligible for Funding	Not Eligible for Funding	Not Eligible for Funding	<b>Funding Received</b>	<b>Funding Received</b>
2010	<b>Funding Received</b>	Eligible, but no Funding Received	<b>Funding Received</b>	<b>Funding Received</b>	<b>Funding Received</b>	<b>Funding Received</b>
2011	<b>Funding Received</b>	<b>Funding Received</b>	Not Eligible for Funding	Not Eligible for Funding	Not Eligible for Funding	Not Eligible for Funding
2012	Not Eligible for Funding	Not Eligible for Funding	<b>Funding Received</b>	Not Eligible for Funding	Not Eligible for Funding	Not Eligible for Funding
2013	Not Eligible for Funding	Eligible, but no Funding Received	Not Eligible for Funding	<b>Funding Received</b>	Not Eligible for Funding	Not Eligible for Funding
2014	Not Eligible for Funding	<b>Funding Received</b>	Not Eligible for Funding	Not Eligible for Funding	<b>Funding Received</b>	<b>Funding Received</b>

## APPENDIX D

**List of Parties Filing Comments in response to Schools and Libraries Notice of Proposed  
Rulemaking  
CC Docket No. 02-6  
(filed July 1, 2002)**

<b><u>Commenter</u></b>	<b><u>Abbreviation</u></b>
Access Living of Metropolitan Chicago	AL
Airoidi, Joan	
Alaska, State of (Department of Education and Early Development)	Alaska
Alaska Telephone Association, The	ATA
American Association of School Administrators	AASA
American Library Association	ALA
Arkansas E-rate Workgroup, The State of	Arkansas E-rate
AT&T Corp.	AT&T
AT&T Wireless Services, Inc.	AV/S
Avella Area School District	Avella
Bakersfield School District	Bakersfield
BellSouth and SBC Comm., Inc.	Bel/South/SBC
Benton Foundation	
Bibbey, David	
Boston, City of	Boston
Bowe, Marty	
California Department of Education, The	California DOE
Carnegie Library of Pittsburgh	Carnegie Library
Cellular Telecommunications & Internet Association	CTIA
Central Susquehanna Intermediate Unit	Central Susquehanna
Cleveland Municipal School District	Cleveland MSD
Coalition for E-rate Reform	E-rate Reform
Colorado Department of Education	Colorado DOE
Community Technology Centers' Network, The Benton Foundation, Association for Community Networking, California Community Technology Policy Group, Santa Barbara College, Casa Foundation	CTCNet
Council of Chief State School Officers	CCSSO
Council of the Great City Schools, The	Great City
Delaware Center for Educational Technology	
Dell Computer Corporation	Dell
eChalk LLC	eChalk
Edison Schools, Inc.	Edison Schools
Educational Services District 101	Edu. Service D. 101
Education and Library Networks Coalition	EdLINC

Emilienburg, Steven	
E-Rate Elite Services, Inc.	E-Rate Elite
Excaliber Internet Corp.	Excaliber
Florida Division of Library and Information Services	
Florida Public Service Commission	Florida PSC
Florida State of Dept. of Ed.	Florida DOE
Funds For Learning, LLC	
General Communications, Inc.	GCI
Gibson, Jeffrey	
Grainger, Kathleen Bond	
Gregory, James D.	
Harris, Jim	Harris (Alabama DOE)
Harvey ESD	Harney
Hawaii State Public Library	Hawaii
Illinois State Board of Education	Illinois BOE
Inclusive Technologies	
Information Institute	
Information Renaissance	
Integrity Networking Systems, Inc.	Integrity
Intelenet Commission, Indiana Department of Education and Indiana State Library	Intelenet
Iowa Communications Network	
Iowa Department of Education	Iowa DOE
Iversen, Sarah L.	
Johnson, Jack	
Jones Public Schools	
Kellogg Consulting, LLC	Kellogg Consulting
Kentucky Department for Libraries and Archives	
Kentucky Department of Education	
Kila School District #20	Kila
Lawton-Bronson Community School, Norman Washburn	
Lebanon School District	
Los Angeles Unified School District	LA USD
Madison School District	
Maine Public Utilities Commission	Maine PUC
Marian High School	
Megdad, Diane	
Memphis City Schools	
Michigan Information Network, The	Michigan
Missouri Office of the Public Counsel	Missouri OPC
Missouri Research and Education Network	MOREnet
Montana Independent Telecommunications Systems	MTIS
Montana Public Service Commission	Montana PSC
Montgomery, Ruth Ann	
Nassau-Suffolk School Boards Association	N-SSBA



National Council on Disability	NCD
National Education Association, the International Society for Technology in Education and The Consortium for School Networking	NEA et al
New Jersey Library Association, The	
New York City Board of Education, The	NYCBOE
New York Public Library, The	NYPL
New York State Education Department, The	
Nextel Communications, Inc.	Nextel
North Attleborough Public Schools	
North Carolina State Library	NCL
North of Boston Library Exchange	NOBLE
Northwood School District	
O'Donnell, Tracey	
Office of Information Technology Services of North Carolina, The	OIT NC
Office of the Public Counsel	
Ogden, Jeffrey C.	
Pennsylvania Department of Education	Pennsylvania DOE
Philadelphia School District	
Pisano, Vivian M.	
Plummer, Jamie	
Quaker Valley School District	
Queens Borough Public Library	
Richardson Associates Electronics	
Rural School and Community Trust	
Scranton Public Library	Scranton PL
Lackawanna County Library System	
Seattle Public Library	Seattle PL
Segalman and Nixon	
Sharer, Judy	
Skiatook Public Schools	
Software & Information Industry Association	Software & Info
Sorenson, Doug	
Spectrum Communications Cabling Services, Inc.	Spectrum
Sprint Corporation	Sprint
Sterling, Jack	
St. Louis Public Library	
Southwest Virginia Education and Training Network	SVETV
TAMSCO Telecommunications Division	TAMSCO
Tel/Logic Inc.	Tel/Logic
Telecommunications for the Deaf, Inc.	TDI
Three Rivers	
Trillion Digital Communications, Inc.	Trillion
United Cerebral Palsy of Michigan/Pam Schuster	
Universal Service Administrative Company	USAC

Verizon Telephone Companies  
Warwick Communications, Inc.  
Weisiger, Greg  
West Virginia Department of Education  
WiscNet  
Wisconsin Department of Public Instruction, The  
WorldCom, Inc.  
York County Library System  
    Martin Library Association

Verizon  
Warwick  
Weisiger  
West Virginia DOE  
  
WDPI  
WorldCom  
York County Library

**List of Parties Filing Reply Comments in response to Schools and Libraries Notice of  
Proposed Rulemaking  
CC Docket No. 02-6  
(filed July 31, 2002)**

<b><u>Commenter</u></b>	<b><u>Abbreviation</u></b>
Alaska, State of (Department of Education and Early Development)	Alaska
American Association of School Administrators	AASA
American Library Association	ALA (late)
Arkansas E-rate Workgroup, State of	AEWG
AT&T Wireless Services, Inc.	AWS
Council of Chief State School Officers	CCSSO
Cox Communications, Inc.	COX
Dell Computer Corporation	Dell
Education and Library Networks Coalition	EdLiNC
Florida Public Service Commission	FPSC
Funds For Learning, LLC	
Information Technology Industry Council	ITI
Iowa, State Library	
Merit Network, Inc.	Merit
National Association of State Telecommunications Directors	NASTD
National Education Association, The International Society for Technology in Education, and the Consortium for School Networking	NEA et al
New York State Education Department	New York
Nextel Communications, Inc.	Nextel
Qwest Communications International Inc.	Qwest
Siemens Enterprise Networks	Siemens
Spectrum Communications Cabling Services, Inc.	Spectrum
Sprint Corporation	Sprint
Verizon	Verizon
Weisiger, Greg	
WorldCom, Inc.	WorldCom

**List of Parties Filing Comments in response to Schools and Libraries Further Notice of  
Proposed Rulemaking  
CC Docket No. 02-6  
(filed July 21, 2003)**

**Commenter****Abbreviation**

Alaska State Library and Department of Education and Early Development	EED
American Library Association	ALA
Arkansas E-rate Work Group	AEWG
Association for Telecommunications and Technology Professionals Serving State Government	NASTD
AT&T Corp.	AT&T
BellSouth Corporation	BellSouth
Comtec Business Systems, Inc.	Comtec
Consortium for School Networking	CoSN
Dell Computer Corporation	Dell
Education and Library Networks Coalition	EdLiNC
Fibertech Networks, LLC	Fibertech
Florida Public Service Commission	FPSC
Funds For Learning, LLC	
Greg Weisiger	Weisiger
Illinois State Board of Education	ISBE
Information Technology Group of the New York Public Library	NYPL
National Association of State Utility Consumer Advocates	NASUCA
New York City Department of Education	NYCDOE
Sprint Corporation	Sprint
State E-Rate Coordinators' Alliance	Alliance
StateNets	StateNets
Tel/Logic Inc.	d/b/a E-Rate Central
Verizon telephone companies	Verizon
Wisconsin Department of Public Instruction	Wisconsin DPI
WorldCom, Inc.	d/b/a MCI

**List of Parties Filing Reply Comments in response to Schools and Libraries Further Notice  
of Proposed Rulemaking  
CC Docket No. 02-6  
(filed August 19, 2003)**

<b><u>Commenter</u></b>	<b><u>Abbreviation</u></b>
Consortium on School Networking	CoSN
International Society of Technology in Education	ISTE
Council of the Great City Schools	Council
Education and Library Networks Coalition	EdLiNC
Funds For Learning, LLC	
National Association of Independent Schools	NAIS
National Education Knowledge Industry Association	NEKIA
Nextel Communications, Inc.	Nextel
Pennsylvania Department of Education	
State of Alaska Department of Education and Early Development	
Alaska State Library	EED
State E-rate Coordinators Alliance	SECA
Verizon	
Weisiger, Greg	

**SEPARATE STATEMENT OF  
CHAIRMAN MICHAEL K. POWELL**

*Re: In the Matter of Schools and Libraries Universal Service Support Mechanism  
CC Docket No. 02-6*

Today marks another milestone in our ongoing and systematic efforts to improve the effectiveness of the schools and libraries fund. Today, we adopt a variety of measures designed to simplify fund administration, ensure the equitable distribution of monetary support, and to protect against waste, fraud, and abuse. The rules we adopt today should increase the accuracy and effectiveness of disbursements by, for example, precluding eligible entities from upgrading or replacing internal connections with universal service funds on a yearly basis, clarifying what constitutes permissible maintenance costs, and limiting the transfer of equipment purchased with universal service discounts.

Many of the actions we take today draw from previous events, including the May 2003 public forum on universal service reform and the activities of the Universal Service Administrative Company's Waste, Fraud, and Abuse Task Force. Taken together, these measures advance our mission of ensuring efficient, accurate and timely fund disbursements to promote the nation's universal service objectives. Yet our task is not yet complete. As indicated in our *Further Notice*, the agency seeks comment on how to further enhance the ability of limited funds to do the most good for the most Americans.

**SEPARATE STATEMENT OF  
COMMISSIONER KATHLEEN Q. ABERNATHY**

*Re In the Matter of Schools and Libraries Universal Service Support Mechanism  
CC Docket No. 02-6*

I am extremely pleased to support this Order and Further Notice. Today we make real progress in improving the efficiency and effectiveness of the Schools and Libraries program. In April of this year, the Commission took an initial step to bolster our defenses against waste, fraud, and abuse in the program by adopting a debarment rule for bad actors. At that time, we solicited comment on additional measures to prevent waste, fraud, and abuse, and in May, I organized a public forum to develop more concrete recommendations. On the heels of the public forum, the Universal Service Administrative Company formed a task force to provide additional proposals.

This item represents the initial fruit of those efforts. Many participants in the public forum argued that the Commission should limit the frequency of discounts for internal connections and also restrict transfers of equipment among schools. The USAC task force made similar recommendations. The Commission has appropriately responded — quite promptly — by limiting funding for internal connections to twice every five years and barring most equipment transfers. These new rules will give applicants flexibility to spread expenditures over two years, but will prevent the same applicants from being funded year after year. Given the scarcity of priority two funds in recent years, the changes will result in extending discounts to schools and libraries in lower discount bands that have yet to receive any funding for internal connections. While we have effectively authorized applicants to upgrade their internal connections every three years, I want to stress that this is a *minimum* period of time that must elapse; in most circumstances, I would expect applicants to recognize that cables, routers, and the like will have significantly longer useful lives.

I am also encouraged by the recommendation of the USAC task force, among others, to lower the maximum discount percentage for internal connections. Common sense suggests that once schools and libraries have been wired, they should not need significant funding again for many years. In practice, however, many applicants in the 80-90 percent discount range have sought increasing funding every year. This pattern suggests that a “copay” of only 10-20 percent may be insufficient to ensure cost-effective expenditures. I look forward to further developing the record on this issue and hopefully making additional rule changes next year.

Finally, I am pleased that the Order continue our search for additional ways to simplify the application process. Although our primary focus has appropriately been ensuring program integrity, we should remain mindful of the need to make it easier for deserving applicants to obtain access to funding. The April Order and today’s Order made several improvements, but we should continue to work on minimizing red tape in the next phase of this rulemaking.

**SEPARATE STATEMENT OF  
COMMISSIONER MICHAEL J. COPPS**

*Re In the Matter of Schools and Libraries Universal Service Support Mechanism  
CC Docket No. 02-6*

Great programs like E-Rate do not thrive without regular review and care. With justifiable pride we can now say that 92 percent of public school classrooms are connected to the Internet. Only 14 percent of these classrooms were connected when Congress passed the Telecommunications Act in 1996. Yet the gains we have made will evaporate without our continued vigilance. This leads me to support today's decision. It is one in a series of positive steps we are taking at the Commission to ensure that the E-Rate program functions with the integrity it must have.

I am particularly pleased that today we finally formalize the process for making available carryover funds from prior years. This is a major step forward. I also think our new rule limiting support for internal connections to two times within a five-year period strikes the right balance between applicant needs and efficient use of program support. These are but two of numerous positive steps contained in this item.

We don't solve all problems today, however. An abrupt change in the eligible services list has left applications from rural schools and libraries in North Dakota and elsewhere high and dry. These rural schools and libraries have built cost-effective networks based on the use of dark fiber. Now the signals have changed and dark fiber is no longer eligible. We need to reverse this recent action and get our policy regarding support for dark fiber straight once and for all. I see nothing in Section 254(h) that compels the exclusion of dark fiber facilities from E-Rate program support. I hope we can correct this mistake as soon as possible.

Finally, I think all supporters of the E-rate should frequently caution themselves that we not add to the growing complexity of the application process. As we tighten procedures and take necessary steps to weed out waste and fraud in the program, we could unwittingly make the application process so daunting as to discourage needy schools and libraries from even applying. As we strive to improve accountability, so also should we commit ourselves to ensuring that as the program evolves, it continues to serve the needs of students and patrons of our schools and libraries—the real beneficiaries of support.



**SEPARATE STATEMENT OF  
COMMISSIONER JONATHAN S. ADELSTEIN**

*Re In the Matter of Schools and Libraries Universal Service Support Mechanism  
CC Docket No 02-6*

In 1996, prior to the implementation of the E-rate program, only 14 percent of public classrooms were connected to the Internet. According to the most recently available data, in 2002, 92 percent of public school classrooms were connected to the Internet. In addition, 85 percent of the public schools that are connected to the Internet reported in 2001 that they had a broadband connection.

In 1997, only 60 percent of library systems provided public access in one of their outlets. While in 2002, 95 percent of public library outlets provided public access. The E-rate program has become a necessary tool to facilitate access to the myriad of opportunities that the Internet offers to students and library patrons alike.

Clearly, this has been a very successful program. But even successful programs can be improved.

Today we adopt an item which is just one in a series of steps we are taking to improve the Schools and Libraries Program. Over the years, this Commission has addressed matters related to the administration of this program to make it more user-friendly and help prevent waste, fraud and abuse. In this last year, this Commission has made a more concerted effort to address these issues.

In April, we issued a Second Order and Further Notice which adopted a debarment rule and other measures to ensure that this program is utilized in the best manner possible. We also sought comment on other issues, some of which we address in this item. In May of this year, we held a Forum on "Improving Administration of the Schools and Libraries Support Mechanisms" and had the opportunity to learn more about the use of this program from a number of different sources.

In addition, we have benefited from the recommendations of USAC's Waste, Fraud and Abuse Task Force and have had the opportunity to review beneficiary audit reports and the Office of Inspector General's semi-annual report. Today's decision draws upon a great deal of information from a number of knowledgeable sources. As I had anticipated in my Separate Statement in April, we have taken more steps forward with this latest addition in our efforts to reform the program and ensure that it inures to the benefit of those schools and libraries across the nation that participate

When private companies make decisions about their telecommunications investments, particularly when it comes to investments in equipment, they generally do not expect to replace their equipment year after year. Our rules in the Schools and Libraries program have permitted schools and libraries to do just that. But today we change that. And I support that change. In April, I said that perhaps we should apply a service life to the equipment. USAC's Waste

Fraud and Abuse Task Force recommended the same. This program-specific service life would require program participants to keep the equipment for a particular period of time rather than applying annually for discounts for duplicative equipment.

Although we did not adopt such a "service life" for equipment, we may have addressed my concern about ensuring the fair and even distribution among requesting users by adoption of two different measures. As a caution, however, we may need to address the issue of service specific lives in the event that the rule we adopt today does not go far enough to prevent waste, fraud and abuse.

We have addressed my concerns by limiting the frequency of requests from entities for Priority Two discounts, and restricting the transfer of equipment purchased with discounts from the schools and libraries support mechanism. Implementation of the "twice-every-five-years" rule will facilitate the availability of funds to more eligible schools and libraries on a regular basis. The fact that we include in that the opportunity to have those two years be consecutive addresses concerns that some schools may need two successive years to complete their projects by spreading the costs over that time. I am also pleased that we exempt maintenance costs from the twice-every-five-years restriction. We clearly define what basic maintenance services are in order to avoid future confusion about what is, and what is not exempt from the basic rule. Clarity is imperative to making this program more user-friendly, as requested by so many of the Forum participants.

Today we extend the Act's prohibition on sale or transfer of equipment purchased with discounts from the universal service program in consideration of money or anything else of value. In order to help prevent waste, fraud and abuse, we prohibit transfer of equipment, without regard to whether money or anything else of value has been received in return, for a period of three years after purchase. We do recognize, however, that applicants may have legitimate reasons to transfer internal connections equipment due to the closing of a school or other eligible entity. I believe that this provides the necessary flexibility to our new rule.

The Waste Fraud and Abuse Task Force has recommended a reconfiguration of our discount matrix. In April, I stated that it was important for us to address the possibility of changing the discount levels for this program. Many have suggested that the 90% discount level is too high because it does not require enough of an investment by the school or library. Reducing the discount levels can introduce more accountability, and better control the costs of the program. At the same time, I realize that there may very well be some schools and libraries that could not afford the benefits of this program if we reduced the discounts. Today, we ask those questions, and others, in order to explore the efficacy of these changes.

I support this item as another continuing opportunity to improve an already outstanding program. We cannot afford to let any abusive practices overshadow the enormous success of this program. I look forward to working with my colleagues, USAC, the service providers, and the schools and libraries as we undertake this endeavor.